

SECTION 7

7. THE CAPITAL PROGRAMME 2003/2008

Introduction

7.1 This section considers the overall position of the Council's capital programme compared with available resources for the period 2003/2004 – 2007/2008. This includes for the 2003/2004 Capital Programme the main programme, that is Basic Credit Approvals (BCA) and capital receipts, together with other programmes such as Supplementary Credit Approvals (SCA), Section 106 Agreements, Leasing, Single Regeneration Budget (SRB) and other grants. For the 2004/2005 and future years Capital Programmes the BCA and SCA's have been replaced by those resources provided under the new Prudential Regime, to be introduced from 1 April 2004.

The 2003/2004 Capital Programme

7.2 The figures in Table 1 detail the current position for the 2003/2004 Capital Programme including the SCA's and grant funded programmes.

Table 1 – 2003/2004 Current Overall Position

| | November Revised Budget £m | Amended Revised Budget £m | Forecast Outturn £m | Estimated Commitment c/fwd £m |
|----------------------------------|-------------------------------------|------------------------------------|---------------------------|--|
| Resources Available: | | | | |
| Basic Credit Approval | 15.074 | 15.074 | 15.074 | |
| Supplementary Credit Approval | 33.897 | 11.688 | 11.688 | |
| Capital Receipts Brought Forward | .034 | .034 | .034 | |
| Capital Receipts in Year | 6.518 | 8.495 | 8.495 | |
| Capital Funding Account | 7.681 | 5.373 | 5.373 | |
| Revenue Account Contributions | 1.200 | 4.000 | 4.000 | |
| Section 106 | 1.600 | 1.963 | 1.963 | |
| Capital Grants | 35.151 | 42.058 | 42.058 | |
| Total Resources | 101.155 | 88.685 | 88.685 | |
| Expenditure: | | | | |
| Service Areas | | | | |
| Education, Arts & Libraries | 9.354 | 17.821 | 8.929 | 8.892 |
| Environment | 15.022 | 12.517 | 12.517 | 0 |
| Housing Services | 59.633 | 39.933 | 39.883 | 0.050 |
| Social Services | 0.498 | 0.498 | 0.498 | 0 |
| Corporate Services | 2.441 | 2.441 | 2.441 | 0 |
| | 86.948 | 73.210 | 64.268 | 8.942 |
| Central Provisions | | | | |
| Provision for Liabilities | 0.900 | 0.900 | 0.900 | 0 |
| St Martin's Church Hall | 0.315 | 0.315 | 0.315 | 0 |
| Elm Road Car Park Lease | 0.250 | 0.250 | 0 | 0.250 |
| Retentions | 0.160 | 0.160 | 0.160 | 0 |
| Property Leases | 0.700 | 0.700 | 0.700 | 0 |
| Deferred Purchase | 0.675 | 0.675 | 0.675 | 0 |
| Grange Road Acquisition | 0.140 | 0.140 | 0 | 0.140 |
| SRB Programmes | 10.067 | 9.359 | 9.359 | 0 |
| Total Expenditure | 100.155 | 85.709 | 76.377 | 9.332 |
| (Surplus)/Deficit | (1.000) | (2.976) | (12.308) | 9.332 |

- 7.3 The forecast surplus is £12.308m. The net commitments to be carried forward amount to £9.332m. Both have been included in next year's programme.
- 7.4 The position set out in the "2003/2004 Capital Budget Monitoring and S106 Update Report" to the 12th November meeting of the Executive has been updated in this report. This budget has been amended to reflect the audited closing position on the annual accounts, new grant allocations, re-phasing of projects and the revised capital receipts forecast. The surplus is now £2.976m, reflecting a net increase of £1.976m due to betterment on the disposals programme, see paragraph 7.5 below.
- 7.5 The capital receipts target now stands at £8.495m, this is an increase of £1.976m on the latest approved estimate reported to Executive in the November cycle. The movement is broken down as follows:

| | £000s |
|--|--------------|
| November Forecast | 6,518 |
| Increased Right to Buy sales | 2,945 |
| Increased receipts on Townsend Lane Allotments, Disposals to LIFT, Ex-caretakers Houses and Carlyon Print works. | 1,036 |
| Reduced receipts on Lancelot Road Allotments and Burnley Road garages. | (97) |
| Reduced levels of fees charged. | 150 |
| Slippage in programme to 2004/05 | (2,058) |
| Revised Estimate | 8,495 |

At 31 December 2003, the end of quarter 3, a total of £6.191m in capital receipts had been received, which included completions on the Townsend Lane Allotments and the Chalkhill Contribution schemes.

Schemes still expected to complete in 2003/2004 are as follows:

- Housing Miscellaneous Sites
- Lancelot Road Allotments
- Disposals to LIFT
- Ex-caretakers Houses
- Carlyon Print Works

The properties comprising of the identified slippage of £2.058m have been included in next years programme.

- 7.6 The following projects have been re-phased for completion in 2004/2005, both expenditure and funding have been included in next year's programme:

| Scheme | £000s |
|--|--------------|
| Environment – Willesden Sports Centre – Council Funded | 1,600 |
| Environment – Willesden Sports Centre – S106 Funded | 1,600 |
| Stadium Access Corridor | 708 |

- 7.7 Use of Supplementary Credit Approval (SCA) monies in year has reduced by £22.209m, of which a £22.500m reduction relates to the apportionment of the total Housing ALMO SCA 2003 – 2005 to the 2004/2005 financial year. Increased SCA capital support of £0.053m has been received by Environment, and £0.238m by Education. Expenditure estimates in the service areas have increased accordingly.
- 7.8 Additional Housing Revenue Account Works of £2.800m will be funded by a Housing Revenue Contribution to Capital Outlay.
- 7.9 Additional S106 Agreements to the value of £1.963m have been received by Education and the expenditure position increased to reflect this resource.
- 7.10 Environment's expenditure position has increased by £0.642m and Education's by £6.265m, this has been funded by additional grant income totalling £6.907m.
- 7.11 The £9.332m carried forward commitments to 2004/2005 are comprised of the following slippage in schemes:

| Scheme | £000s |
|---|--------------|
| Education - Council Funded School Schemes | 1,931 |
| Libraries Programme | 20 |
| Grant Funded School Schemes | 4,918 |
| SCA Funded Schemes | 60 |
| S106 Funded Schemes | 1,963 |
| Housing - Chalkhill Redevelopment | 50 |
| Grange Road Acquisition | 140 |
| Elm Road Car Park Lease | 250 |

It is anticipated that further slippage will arise across the service areas by the end of the financial year.

- 7.12 As can be seen from the above table there is a high level of slippage forecast for the Education capital programme in 2003/2004. This position is being contributed to by the following:
- Late starts on site due to lack of schemes prepared and on the shelf;
 - Poor Capital Budget monitoring systems;
 - Poor performance of external consultants;
 - Uncommitted/unallocated resources.
- 7.13 Steps have been taken to address these deficiencies; subject to a lead consultant being put in place on an experimental basis, to be funded out of the capital resources, staff training can be introduced effectively.
- 7.14 Appendix H1 gives a brief analysis of the main areas of slippage at project level, excluding the Devolved Formula Capital and VA Minor Works.

- 7.15 **Members are asked to consider a request from the Director of Environment relating to the improvement of pedestrian crossings.** The Council has almost completed upgrading pedestrian crossings in the borough to provide facilities for disabled people. This includes the use of dropped kerbs and tactile paving. In 2003/2004 £50k capital funding has been used by Environmental Services to increase the proportion of crossings meeting the new standard to 91%. Given an underspend elsewhere in the capital programme it is proposed to bring forward to 2003/2004 £55k of the £3,750k proposed allocation to highway improvement in 2004/2005 in order to allow further improvements to be implemented this year. This should increase the proportion of pedestrian crossings with facilities for disabled people up to 95% by March 2004. This should be increased to 100% by March 2005.

Given the level of forecast surplus this request could be accommodated in the Capital Programme.

The 2004/2005 and Beyond Capital Programme

- 7.16 This is set out fully at Appendix H2 which gives two tables, one relating to General Fund and one relating to the Housing Revenue Account. The following sections deal with the resources position and the overall expenditure commitments which have been compiled giving full consideration to the new Prudential Capital Finance System, arising from the Local Government Act 2003 and to be introduced from 1 April 2004. Further details of the new system are laid down in Section 9 to this report, "The Prudential Code for Capital Finance – Background and Indicators 2004/05". The Capital Programme shows a balanced position throughout. However, the forecast capital programme (General Fund) includes a line for service area savings to be identified at budget setting in future years. This is the gap that will have to be addressed in order to retain the level of unsupported borrowing that was previously reported in the First Reading report and to the Overview Committee. The main reason for this is the shift in supported borrowing to the Housing Revenue Account, see paragraph 7.18 below. Means by which the identified gap could be addressed include taking savings on Housing General Fund projects, increasing the levels of unsupported borrowing and utilisation of Education support not yet announced. It should be noted that the level of forecast capital investment shown as unsupported in future years will be dependent on the availability of revenue resources and any changes in investment priority.

Capital Resources

- 7.17 The Council's capital resources are made up of the following:
- Supported Capital Borrowing - Under the Prudential System of Local Authority Finance, central government support for investment will be delivered either as Supported Capital Expenditure Revenue (SCE(R)), which replaces credit approvals, or as Supported Capital Expenditure Capital (SCE(C)), which is capital grant. Individual Departments of State have announced levels of SCE(R). These are aggregated and translated

into a level of revenue expenditure sufficient to meet the debt charges. This sum is then added to the FSS for capital spending and typically attracts 75% revenue grant. There is however no obligation to spend the SCE(R) either on any particular service or at all in order to receive the revenue grant. An element of revenue support is ringfenced specifically for the Housing Revenue Account (HRA). However, SCE(C) is allocated by Government departments for a specific purpose or scheme.

Supplementary Credit Approvals (SCA's), previously made available for a specific purpose or scheme, will no longer exist under the Prudential System. However, existing provisions will continue to be accounted for until their expiration.

- Usable capital receipts arising from the disposal of Council assets.
- Revenue and other contributions made by the Council and other third parties.
- Unsupported Capital Borrowing – This is the extent of the Council's self regulated borrowing under The Prudential Code for Capital Finance. This source meets the gap between the desired programme of capital works and the total of those resources summarised above. The basic principle is that a local authority will be free to invest so long as their capital spending plans are affordable, prudent and sustainable. The Prudential Code sets out the indicators that local authorities must use, and the factors that they must take into account, to demonstrate that they have fulfilled this objective (see Section 9).

7.18 The Council's total Supported Capital Expenditure (Revenue) for 2004/05 and estimates for future years are detailed below.

Supported Capital Expenditure (Revenue)

| | 2004/05 £000s Actual | 2005/06 £000s Estimate | 2006/07 £000s Estimate | 2007/08 £000s Estimate |
|-----------------|----------------------------|------------------------------|------------------------------|------------------------------|
| Housing | 8,411 | 8,411 | 6,008 | 6,008 |
| Social Services | 234 | 195 | 185 | 185 |
| Education | 3,519 | 4,176 | 0 | 0 |
| Total | 12,164 | 12,782 | 6,193 | 6,193 |

The above table represents the total level of revenue support included within the capital forecast model at Appendix H2. However, there are issues that must be taken into account when considering this resource:

- The position above details the predicted deterioration to the allocation of Housing resources. These resources are now allocated to the Council by the Regional Housing Board (RHB) who will allocate only 70% per annum of the Council's Housing Investment Programme for the next two years. Thereafter, the RHB may choose to allocate less than this, and only 50% has been assumed for 2006/2007 and 2007/2008, although the actual allocation could be less. Of the total £8.411m allocation the Housing Final

Determination figures for 2004/2005 dictate that £5.264m must be ringfenced to support expenditure on the Housing Revenue Account only, it has been assumed that this will also apply in future years. The effect of this is to reduce the support available to the General Fund (see paragraph 7.16 above) and has a cumulative impact year on year to the level of works that can be completed without increasing the level of prudential borrowing. Housing Services are proposing to utilise the full extent of the supported borrowing on the HRA but have not forecast an associated reduction on general fund expenditure to reflect this shift in funding. In 2004/2005 the impact of this change is negligible, but takes effect from 2005/2006. Housing Services will review the General Fund spend on the provision of grants and new units, in future years to seek to address this situation, in the light of forthcoming announcements on the levels of Advanced Development Programme (ADP) allocations that will be available from the RHB.

- The supported programme for education includes formulaic allocations for LEA needs, new pupil places, Basic Need and School Access Initiative. This funding has been allocated to cover in part the agreed growth bids submitted by Education. Currently no information has been provided on the allocations for 2006/2007 and 2007/2008, and as such no provision has been made in the forecast.

7.19 Capital Grant allocations so far notified for 2004/2005 amount to £10.145m of which £5.129m relates to the Borough Spending Plan allocation from Transport for London to be utilised within the Environment service area and £5.016m SCE(C) is for Education Services on School Modernisation, Seed Challenge and Devolved Formula Capital schemes. It is anticipated that other allocations will be received later in the financial year. Again future year allocations are best estimates.

7.20 Usable Capital Receipts amounting to 100% of receipts from the sale of General Fund assets and 25% of Right to Buy sales can be used to enhance capital expenditure. Under the new Prudential System the non-usable proportion of capital receipts must be “pooled”, which entails making payments to the Secretary of State on specified dates throughout the financial year. Before calculating the pooling percentage, the authority may reduce the amount to be paid over by administrative costs and the costs of improving a property within three years ending on the date of disposal.

7.21 Capital Receipts from Housing (HRA) Land must be pooled in total. However, the extent of pooling from these sales may be reduced to the extent of the Council’s planned expenditure on its own affordable housing and regeneration projects.

7.22 The aim of pooling is to preserve and strengthen the principle of redistributing the spending power generated by sales of housing assets. Despite the term there will not be an identifiable national pot of money. The resources generated will not be allocated separately, instead the expected receipts will have been taken into account in determining the overall level of resources

available for HRA investment through supported capital expenditure and the Major Repairs Allowance.

- 7.23 The disposals programme for 2004/2005 is expected to produce net usable receipts of £5.258m, the individual disposals are detailed below.

| Scheme | £000s |
|--|--------------|
| Right to Buy sales | 1,700 |
| General Fund Assets (consisting of): | 1,300 |
| - Salusbury Road Car Park | |
| - British Legion – Albert Road | |
| External Receipts | 200 |
| Slippages Carried Forward (consisting of): | 2,058 |
| - Kingdome Site | |
| - Land to Garages Adjacent to Burnley Road | |
| - Land Rear 3 Moreland Gardens | |
| - Church End Car Park Phase 2 | |
| - Housing Miscellaneous Sites | |
| - Scout Rationalisation and Clock Cottage | |
| - Roberts Court Overage | |

- 7.24 The remaining resources are from:

- The 2003/04 Capital Programme Carried Forward - £12.308m.
- Ongoing Housing ALMO Supplementary Credit Approval - £22.500m.
- The Capital Funding Account - £2.308m.

- 7.25 Under The Prudential Code for Capital Finance in Local Authorities, consideration of the level of unsupported capital borrowing will be required by the full Council in conjunction with the setting and revising of the prudential indicators, see Sections 5 (Revenue Budget) and 9 (The Prudential Code for Capital Finance) for further details.

Overall Capital Expenditure Commitments

- 7.26 Appendix H2 presents the forecast capital programme expenditure for 2004/2005 and future years, this can be summarised as follows:

| Service | £000s |
|-----------------------------------|---------------|
| Education, Arts and Libraries | 19,664 |
| Environment | 15,069 |
| Social Services | 1,771 |
| Housing – General Fund | 11,990 |
| Housing – Housing Revenue Account | 27,764 |
| Corporate Services | 2,627 |
| Central Items | 5,396 |
| Total | 84,281 |

- 7.27 Expenditure in the forecast programme includes the following:
- (a) the continuation of the 2003/2004 investment programmes;
 - (b) slippage on schemes from last year.
 - (c) Contractual or obligatory funding.
 - (d) Use of Supplementary Credit Approvals.
 - (e) Growth bids for 2004/05 and Future Years, see paragraph 7.28 below.

The status of different parts of the capital programme varies and further details are included in the paragraphs below.

- 7.28 As part of the budget process, Service Areas have made bids for additional resources. Appendix H(iv) sets out the schemes recommended for inclusion in the programme. These were set out in detail in the First Reading Report and in a subsequent report to Overview Committee. The Capital Programme set out in Appendix H2 reflects the Executive's recommendation drawn from the Capital Bids and on the basis of advice from the Director of Finance as to affordability.

- 7.29 During the bidding process a number of schemes were identified where more information about the objectives and outputs was required. The resources for these schemes will be released once the projects have been received and agreed by the Capital Board and approved by the Executive.

- 7.30 Expenditure on Schools and Libraries is forecast at £19.664m and can be classified as follows:

| Expenditure Type | £000's |
|---------------------------------------|---------------|
| Council Funded School Schemes | 3,019 |
| Libraries Programme | 20 |
| Grant Funded School Schemes | 9,934 |
| Supplementary Credit Approval Schemes | 60 |
| S106 Funded Schemes | 1,963 |
| Growth Bid Funded Schemes | 4,668 |

The programme includes an amount of £261k slippage on Council Funded School schemes from 2004/2005 to 2005/2006.

- 7.31 The growth bids within the Education programme include an item of £2.100m in 2004/2005 and £2.000m in future years classified as self funded, which relates to the introduction of a new policy to be operated in partnership with the schools. This new proposed scheme is laid down in detail at Appendix H3 which is still subject to legal review.
- 7.32 The programme for Environment Committee totals £15.069m, which includes programmes funded by Transport for London grant and ring-fenced to those schemes £5.129m, £3.200m for re-phased work on the Willesden Sports Centre of which £1.600m is funded through a S106 agreement, the 2003/2004 Investment Plan of £2.101m and growth bids totalling £4.639m.

- 7.33 Social Services budgets are in respect of the Investment Plan at £680k and £1.091m of growth bids, totalling £1.771m.
- 7.34 The total Housing capital programme for 2004/05 amounts to £39.754m. Because the Housing budget relates to such large programmes there would need to be some flexibility in the movement of annual budgets between these programmes to allow expenditure to be maximised and contractual commitments to be met. The current budgets are distributed as follows:
- (i) £5m in each year to Private Sector Renewal and Disabled Facilities Grants (DFG). This is at a level which enables all DFG grant support to be taken up and provides sufficient fee income to housing to avoid the need for redundancies in the relevant administrating unit.
 - (ii) £3.969m for new social housing units.
 - (iii) £271k is allocated to deal with the residual contractual requirements to demolish property on the Chalkhill Estate.
 - (iv) For 2004/2005 £27.764m has been included to meet the investment requirements for the Arms Length Management Company. This utilises the full extent of the Supported Borrowing on the Housing Revenue Account and is a policy continued in future years where all estimated supported borrowing is taken up.
 - (v) Budgets for the Investment Plan of £1.850m.
 - (vi) Growth bids of 900k.
- 7.35 It has previously been identified that the ALMO may need a further £20m capital investment over 3 years to meet the decent homes standard. An extensive exercise is currently being undertaken to review the ALMO's refurbishment programme in the light of market testing. Brent's HRA Business Plan will then be updated. The impact of this review on the HRA prudential borrowing for future years will be known when this exercise has been completed. The Capital Programme currently contains no allowance for growth relating to the Decent Homes Standard on the Housing Revenue Account.
- 7.36 The Corporate Services budgets total £2.627m, of which £770k relates to the continuation of the investment programmes. Expenditure relates to Disabled Access and Health and Safety works in administrative buildings and investments in the Council's IT infrastructure including E-Government. In addition to this the programme contains growth bids to the value of £1.857m, which includes an amount of £400k for Project Management to provide additional resources within Corporate Property, Education and Social Services, to help deliver capital projects.
- 7.37 The remaining expenditure is best defined as central items since they do not relate specifically to one service area:
- (i) £300k per annum is for an on-going requirement to pay out retention amounts on old schemes;

- (ii) The Council has two £659k installments to meet in respect of the Satman 47 deferred purchase scheme
- (iii) Slippage of £250k for the Elm Road Car Park Lease.
- (iv) Slippage of £140k for the Grange Road acquisition.
- (v) The Council's contribution in future years to the New Deal for Communities programme in South Kilburn.
- (vi) An unfunded contingency sum of £1.739m to allow for variations during the year and the event that emergency works are required. If the contingency is needed, then the appropriate service department will be required to find the necessary revenue resources to fund the additional capital spending.
- (vii) The Estate Access Corridor relates to land acquisition and some of the costs of building the estate access roads. The programme contains an element of £708k slippage from 2003/2004 and an identified overspend of £200k in 2004/2005 and £766k in 2005/2006. An additional item of expenditure for £1.400m has also been included for unforeseen additional bridgeworks over the Chiltern Line. This figure could be subject to change as the full extent of the required works becomes known. In addition members will also be aware that the report entitled "Stadium Access Corridor Project" submitted to Executive on 7 January 2004 detailed fully the position on this scheme. The report identified an £11.600m funding gap at this stage, currently no Brent resources have been allocated specifically to the Stadium Access Corridor project. Officers are of the opinion that this project contains a high element of financial risk and will continue to monitor the position.

Future Allocations and Revenue Costs

- 7.38 If Members agree the budgets described in the paragraphs above then Appendix H2 sets out a balanced capital programme. The Council's resource position for 2004/2005 and beyond has been estimated under the new prudential regime to be introduced from 1 April 2004.
- 7.39 Although members are free to allocate resources wherever they feel the need is highest, they should be aware of some of the implications of their decisions. In particular, they should note the impact on future allocations and the financing costs.
- 7.40 Consideration of affordability will be one of the critical tests in determining the limit of capital spending under the new prudential regime.
- 7.41 The table below summarises the impact of the Prudential Regime Revenue Charges on the Council's accounts, based on the capital programme set out at Appendix H2.

| | 2004/05 £000s | 2005/06 £000s | 2006/07 £000s | 2007/08 £000s |
|--|------------------|------------------|------------------|------------------|
| 2004/05 Unsupported Borrowing £17.998m Of which Self Funded £4.421m | 738 (181) | 2,177 (535) | 2,087 (513) | 2,087 (513) |
| 2005/06 Unsupported Borrowing £14.627m Of which Self Funded £3.700m | 0 0 | 600 (152) | 1,770 (448) | 1,697 (429) |
| 2006/07 Unsupported Borrowing £14.836m Of which Self Funded £3.702m | 0 0 | 0 0 | 608 (152) | 1,795 (448) |
| 2007/08 Unsupported Borrowing £14.000m Of which Self Funded £1.700 | 0 0 | 0 0 | 0 0 | 574 (70) |
| Cumulative Total | 557 | 2,090 | 3,352 | 4,693 |
| Effect on Council Tax at Band D | £6.01 | £22.56 | £36.18 | £50.66 |

- 7.42 The Prudential Code requires the Council to calculate the incremental impact on Council Tax at Band D and Rents of the cost of “*unsupported*” borrowing over three years (see Section 9). The HRA has no unsupported borrowing and therefore no impact on rents.
- 7.43 The charges to revenue accounts represent the estimated principle and interest payable on the unsupported borrowing required to balance the capital programme.
- 7.44 Currently this unsupported capital requirement includes those growth bids recommended by Executive, deemed to be self-funding (ie the revenue charges to be met from compensating savings or increased income) and bids where more information is required for the decision making process. This last category has been included for prudence, to show the potential maximum position on the capital programme for financial years 2004/05 to 2006/07. Capital requirements for 2007/08 are prudent estimates based on the previous years.